analysis. This shifts costs appropriately borne by MFS-I customers to captive interconnectors.

- Instead of using the generally accepted "capacity cost approach" to estimate engineering fills and utilization factors when demand is unknown – a process Bell Atlantic uses in similar situations – MFS-I has apparently used its expected actual fills and utilization. By using these lower fill and utilization numbers, MFS-I is seeking to shift to BA-Maryland and other captive interconnection customers the extra costs associated with MFS-I's startup. While BA-Maryland has taken many extra steps to fully and fairly assist MFS-I to get into business, certainly startup risks should be borne by MFS-I's shareholders – who stand to reap substantial upside benefits -- rather than by BA-Maryland through an inflated interconnection rate.

- MFS-I has decided to include "backhaul" transport costs associated with its decision to locate its switch in Virginia. Although Mr. Ball originally explained during the discussion of MFS-I's first tariff that MFS-I is "not proposing to charge people because [where] we decided to put our switch," that decision apparently has been modified – MFS-I's customers will not be charged for this decision, but those terminating traffic to MFS-I will be charged for this decision. (2/2/95 Trans. at 22). These charges are inappropriate for an access rate.

- MFS-I has used arbitrarily and unrealistically high depreciation rates – in critical instances, such as for its switch and for buildings, between 2.5 and nearly 8 times shorter than the commonly accepted lives for these assets. These inflated depreciation rates, which MFS-I justified before the Staff as being necessary to compensate for the "riskiness" of its venture, in turn inflate MFS-I's costs. Appropriate lives should be used instead.

The Mirroring of BA-Maryland's Rates

MFS-I has chosen to set its rates at the lower of its "costs" or BA-Maryland's comparable rates. As a result of MFS-I's inappropriate costing methodology, this generally results in a simple mirroring of BA-Maryland rates. This approach offers no benefits of competition, including lower rates, that MFS-I promised. Mirroring BA-Maryland's rates indicates either that MFS-I has no intention of keeping its promises to deliver those benefits of competition to its customers or that it is abusing its control over terminating access facilities.

MFS-I has again proposed mirroring BA-Maryland's interim local access interconnection rate of $.061 per message. By insisting on charging the same interconnection rate as BA-Maryland, MFS-I, once again, is seeking to overturn this Commission's decision in Order No. 71155 that new entrants in the local exchange market should pay their fair share of BA-Maryland's shared and common costs of providing ubiquitous telephone service. No support for the costs of the ubiquitous network will flow as long as the interconnection rates are the same in both directions and, therefore, MFS-I will not be living up to its responsibilities to support those costs.

Additionally, MFS-I's proposed interconnection rate will result in a windfall of unearned and undeserved revenues. MFS-I is not providing ubiquitous telephone service in Maryland, or undertaking carrier of last resort responsibilities. Without these responsibilities, MFS-I has no justification to support a $.061 rate. Implementation of this unsupported rate will do nothing more than unfairly subsidize MFS-I's entry into the local phone market.

Collocation

MFS-I has proposed tariff language addressing only the cross-connection element of physically collocated transmission facilities at an MFS-I end office location. MFS-I refers BA-Maryland and other potential collocators to its "MFS Telecom Affiliates" for the other terms and conditions of collocation. MFS-I should not be permitted to effectively shield rates from Commission consideration by using its corporate structure and affiliates. MFS-I should be required to file a meaningful collocation tariff, including all applicable rates for establishing a site at an MFS-I location.

In addition, MFS-I's proposed collocation rates are unreasonably high. MFS-I's rates of $20.54 and $262.40 for DS1 and DS3 cross connects compare to BA-Maryland rates of $22.54 and $207.24, respectively. BA-Maryland's rates, however, are for **virtual collocation**, and therefore include BA-Maryland's maintenance of the virtually collocated equipment. MFS-I's rates, on the other hand, are for **physical collocation** and collocators are required to maintain their own equipment.

Carrier Common Line and Residual Interconnection Charge

BA-Maryland's intrastate Carrier Common Line Charge (CCLC) and Residual Interconnection Charge (RIC) are contribution elements which provide support to universal service. As discussed above, MFS-I proposes and accepts no universal service obligation and is therefore not entitled to any associated recovery.[3]

[3] It is important to correct a factual error on page 13 of MFS-I's Description and Justification of Rates for Switched Access Services. MFS-I notes, incorrectly, that "BA-Maryland's common transport rates are not designed to recover the total costs of its services" and that any shortfall is recovered by the interconnection charge element. All of BA-Maryland's local transport rate elements are priced above costs. The interconnection charge is a subsidy element designed to support universal service.

MFS-I appears to have proposed their CCLC and RIC in order to recover costs not recovered in end-user retail rates. If this is indeed the case, then it would appear that MFS-I is seeking to employ its bottleneck control over access to its end users to subsidize its end user rates. MFS-I was granted virtually unlimited pricing flexibility for competitive retail services, and chose to price these services below comparable BA-Maryland rates. MFS-I is now attempting to recover a "shortfall" through charges to captive LEC and IXC customers who must use the MFS-I "bottleneck" facility to terminate calls to MFS-I end user retail customers. (MFS-I's CCLC is an especially onerous charge because, unlike BA-Maryland's CCLC, MFS-I's is uncapped. This would result in a potentially unlimited revenue stream.)

To the extent that this Commission authorizes MFS-I to charge a CCLC and RIC, these revenues should flow to BA-Maryland as the ubiquitous universal service provider.

Transport -- Entrance Facility Speeds

MFS-I proposes to tariff only DS1 and DS3 entrance facility and direct trunked transport. MFS-I should at a minimum offer voice grade (especially when volumes are low in its start-up phase as MFS-I so frequently claims) so that interconnecting carriers are not required to pay for capacity that they do not require. MFS-I should also be required to file DS3 rates rather than individually pricing each facility.

Number Portability

MFS-I has omitted any provision for number portability in its tariff, despite its earlier agreement to do so. In both the Co-carrier Compliance Report (dated 6/24/94, at page 33) and the subsequent Progress Report (dated 9/1/94, at page 10), MFS-I agreed to provide "reciprocal number retention" using Flex-DID service. MFS-I customers wishing to change local providers to BA-Maryland, MCI-Metro or TCG should have the option of number retention. Given MFS-I's adamant stand on the importance of number portability, the Commission should require MFS-I to include a number portability offering as part of its tariff for Switched Access Services to other carriers.

Conclusion

BA-Maryland believes that MFS-I should be permitted to recover the incremental cost of terminating traffic plus a reasonable return in its interconnection rate. It is clear that MFS-I is instead seeking a generalized subsidy for its operations through this critical rate. BA-Maryland is confident that MFS-I could -- if it chose to do so --

complete a simple, low-cost and appropriate incremental cost study to support its interconnection rate.

Completing this study need not delay MFS-I's entry into business. If MFS-I believes it cannot abide by the Commission's initial designation of an zero cent interim interconnection rate, there are alternatives. For instance, a cost study-based interconnection rate -- at least two of which have been provided to the Commission over the last year -- could be imposed as a surrogate until MFS-I completes the costing work the Commission instructed it to make last April. In order to properly incent MFS-I to complete its study, it should be permitted to recover no more than the surrogate cost until the Commission approves its interconnection rate.

BA-Maryland respectfully requests that the Commission modify MFS-I's proposed tariff consistent with the objections set out above.

Sincerely,

David K Hall

David K. Hall

cc: Chairman Frank O. Heintz
Commissioner Claude M. Ligon
Commissioner E. Mason Hendrickson
Commissioner Susanne Brogan
Commissioner Gerald L. Thorpe
All Parties of Record
All Interested Persons

ATTACHMENT 2

SERVICE DATE

OCT 3 1 1995

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. U S WEST COMMUNICATIONS, INC., Respondent.	DOCKET NO. UT-941464
TCG SEATTLE and DIGITAL DIRECT OF SEATTLE, INC., Complainant, v. U S WEST COMMUNICATIONS, INC., Respondent.	DOCKET NO. UT-941465
TCG SEATTLE, Complainant, v. GTE NORTHWEST INCORPORATED, Respondent.	DOCKET NO. UT-950146
GTE NORTHWEST INCORPORATED, Third Party Complainant, v. U S WEST COMMUNICATIONS, INC. Third Party Respondent.	DOCKET NO. UT-950265
ELECTRIC LIGHTWAVE, INC., Complainant, v. GTE NORTHWEST INCORPORATED, Respondent.	FOURTH SUPPLEMENTAL ORDER REJECTING TARIFF FILINGS AND ORDERING REFILING; GRANTING COMPLAINTS, IN PART

We are not persuaded by AT&T's argument that interconnection rates for local and long distance should come together and be priced at TSLRIC at some time in the future. It should be clear from the discussion above that we believe IXCs derive significant benefits from having access to local exchange company networks, and thus should contribute a fair share toward the common costs required to provide those networks. Also, at this stage of a rapidly changing market, it is uncertain whether the rates for local and long distance will converge over time. These are different markets, competing in different ways. If, when, and how such rates may converge remains to be seen.

We reject USWC's proposal to increase the local switching element of its switched access charge from $0.0065 to $0.0100/minute. USWC's proposal is a step toward economic inefficiency, which the Commission must be particularly mindful of in an increasingly unbundled and competitive market.

USWC provides no cost justification for increasing the local switching charge by 57%. USWC's arguments in support of increasing the local switching charge element are not persuasive. USWC witness Harris testified that switching costs are declining.[22] His testimony provides justification to decrease the local switching charge, not to increase the rate by 57%.

To support its proposal to increase the local switching charge, USWC argues that the level of contribution from the current local switching charge is too low, relative to contribution the Company seeks to recover from transport functions. In support of this argument, Ms. Wilcox provided Exhibit C-53. This exhibit is a poorly supported chart, based on total contribution rather than contribution from each element. It does not justify the proposed increase. The Commission rejects this argument for several reasons:

First, USWC's assertion that local switching provides less contribution than transport is based on comparisons of prices to ADSRC, rather than to the appropriate TSLRIC costs, which renders the comparison useless. Proper comparisons using TSLRIC were not provided in this case. Even if such comparisons had been presented, we believe any such comparison would be highly suspect. We have very little confidence in the cost studies USWC utilized for its case.

Second, we are especially concerned about USWC's local switching cost estimates. Given Dr. Harris' testimony that local switching costs are declining dramatically, there is a significant risk of an upward bias in the switching cost estimates, which would result in the analysis of contribution from either the current or proposed local switching charge being unreliable.

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[22] Dr. Harris wrote: "The application of transistors, semiconductors, integrated circuits and other microelectronics in telecommunications equipment has dramatically reduced switching and transmission equipment costs...." (Ex. T-10, p. 5)

Third, the Commission finds that USWC has employed contradictory and confusing tests to determine appropriate levels of contribution. USWC witness Wilcox testified that while she does not advocate equal contribution for LTR components, the switching charge should be increased because the differences in contribution levels are too great. (Ex. T-46, p. 28) When we examine Exhibit C-100, we note that the percentage contributions for all transport options exhibit a large range. The contributions from both the current and proposed switching charges lie within that range. Thus, even if the Commission had some confidence in the cost estimates provided, we are left to wonder what upper and lower bounds USWC believes contributions from LTR components (or subsets of components) should lie within, and the theoretical basis for those subsets and boundaries. Without providing these bounds and subsets, and its reasoning for the bounds and groupings, USWC's argument to increase the local switching charge based on relative contributions of other LTR components is, indeed, contradictory.

Fourth, the argument to increase the local switching charge because it provides relatively less contribution than does transport is weak. The Commission finds USWC's testimony that local switching costs are declining dramatically a much stronger argument for what direction the switching charge should be moving.

USWC's final attempt to justify an increase in the local switching charge is a comparison of such charges in other states. It argues that an increase is justified because USWC's local switching charge is lower than switching charges in most other states. Perhaps if USWC had provided some explanation of why several other states have higher local switching charges, and why such charges provide benefits to the citizens of those states, this position would have some meaning. However, we do not find that such a bare comparison in any way justifies any increase, and certainly not an increase of 57%, when the service is exhibiting dramatically decreasing costs.

The Commission's decision to disallow an increase in the local switching charge is for purposes of this proceeding, based on USWC's inadequate demonstration here. We do not rule out raising the local switching charge in the general rate case as a way to obtain contribution from switched access customers. As stated above, IXC carriers derive large benefits from the local network, and should contribute to the financial support of that network.

The final issue regarding LTR is USWC's proposal to eliminate its intraLATA foreign exchange service from the access tariff. Staff recommended that the Commission reject this proposal as the revenue impacts were unknown. (Wilson, Ex. T-154, p. 20) No other intervenor party presented any discussion or recommendation of this proposal. Ms. Wilcox's recommendation that the service be eliminated was based on the LTR being implemented. Since we are rejecting USWC's LTR tariff, there is no basis for accepting the intraLATA foreign exchange service proposal. We agree with Staff that this issue should be addressed in the rate case, where the revenue impacts can be managed in the context of total revenue requirement.

ATTACHMENT 3

FILE COPY

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Bell Telephone Company Proposed introduction of a trial of Ameritech's Customers First Plan in Illinois	:	94-0096
Illinois Bell Telephone Company Addendum to proposed introduction of a trial of Ameritech's Customers First Plan in Illinois	:	94-0117
AT&T Communications of Illinois, Inc. Petition for an investigation and Order establishing conditions necessary to permit effective exchange competition to the extent feasible in areas served by Illinois Bell Telephone Company	:	94-0146
Illinois Bell Telephone Company Proposed introduction of a trial of Ameritech's Customers First Plan in Illinois (refiled)	:	94-0301 Consol.

ORDER

April 7, 1995

Illinois Bell's network as Illinois Bell would terminate on the new entrant's network. Undisputed testimony demonstrates clearly that at this early stage of competitive entry, a new entrant will be required to terminate virtually all local calls made by its customers on Illinois Bell's network, while Illinois Bell will terminate only a small percentage of calls made by its customers on the new entrant's network.

The record makes clear that the model for reciprocal compensation for the exchange of traffic between incumbent and new LECs cannot be based on the current levels of Illinois Bell's switched access charges. Staff's analysis demonstrates that Illinois Bell's proposal to charge new LECs tariffed switched access rates to complete local traffic on its network would result in a situation in which wholesale compensation rates would be above retail market rates for a wide variety of calls. In other words, carriers would pay more in terminating compensation to Illinois Bell than it currently receives in revenues from its local usage customers. In addition to Staff's imputation-type analysis, several witnesses independently demonstrated that in most cases Illinois Bell would charge a new LEC more in access charges than it would charge its own local residential or business customer for the entire usage service, making it impossible for a new LEC to establish a competitive price using Illinois Bell's current access rates as a compensation mechanism. Staff Ex. 2.0 at 47-48, Staff Ex. 2.01 at 34-41; TCG Ex. 1.0 at 9-15.

One of two outcomes necessarily would result from the adoption of this proposal. Illinois Bell's rates, including its proposed access-charge-based compensation rates, could remain unchanged, in which case potential competitors would be subjected to an anticompetitive price squeeze in which it literally would be impossible for them to establish a competitive price for local calling. The other possible outcome, as Illinois Bell suggests, would be to raise local calling rates further above cost, which not only would defeat the purpose of competition but would be contrary to our universal service goals. Therefore, we conclude that Illinois Bell's current switched access rates do not form an adequate basis for reciprocal compensation rates among competing LECs.

It is necessary to establish just and reasonable reciprocal compensation rates to substitute for those proposed by Illinois Bell. We find many of the goals and principles put forward by the parties to be consistent with our view of appropriate arrangements for reciprocal compensation. We strongly agree with TCG, for example, that the compensation arrangements we adopt must allow for economically viable competition for local calling. At the same time, we are mindful of Illinois Bell's concern that any adopted compensation scheme must allow the incumbent LECs to recover the economic costs incurred to terminate traffic originating on another carrier's network.

Based on an overall consideration of the various proposals, the Commission concludes that Staff's reciprocal compensation proposal best meets the criteria we have identified and represents the most reasonable basis, on this record, for establishing compensation rates between incumbent LECs and new LECs. It bases compensation rates upon the actual LRSIC costs which Illinois Bell would incur in providing termination services; it provides a reasonable level of contribution to Illinois Bell's overhead costs; and it allows Illinois Bell to pass an informational imputation test for local traffic.

The Commission recognizes that Staff's proposal is not perfect. There is a legitimate concern that the two-tier approach (i.e., one compensation structure for the termination of "local" traffic and the existing switched access charges for the termination of all other traffic) could encourage arbitrage (even though Staff's proposal incorporates protection against it through the percentage of local usage declaration) and ultimately a compression of the two rates toward the lower rate. However, the Commission currently is investigating a restructure of access charges, and we anticipate that the adjustments should moderate the impact of the rate variance. We also will consider adjustments to the rates we are adopting here as the circumstances warrant. Ultimately, the same rates should apply for termination regardless of the type of originating carrier, and we formally establish that goal here.

Contrary to Illinois Bell's assertions, it is entirely appropriate to gauge the reasonableness of Illinois Bell's reciprocal compensation proposal, and to establish substitute rates, with reference to an imputation-style analysis for local traffic such as Staff used, rather than the broader test Illinois Bell advocates. The issue is not whether a new LEC ultimately can scrape together revenues from enough sources to be able to afford Illinois Bell's switched access charges. The crucial issue is the effect of a given reciprocal compensation proposal on competition. Staff's analysis identifies the essential locus of competition between the incumbent LEC and the new LEC, and it is there that competition must be viable. Illinois Bell surely could not argue that appreciable numbers of customers will switch exchange carriers because the new LEC offers the best directory assistance or custom calling in the area. Yet, adoption of Illinois Bell's proposal and rationale would force new LECs to adopt either a premium pricing strategy or use local calling as a "loss-leader". That is not just or reasonable.

FILE COPY

ATTACHMENT 4

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on June 28, 1995

COMMISSIONERS PRESENT:

Harold A. Jerry, Jr., Chairman
Lisa Rosenblum
William D. Cotter
John F. O'Mara

CASE 94-C-0095 - Proceeding to Examine Issues Related to the Continuing Provision of Universal Service and to Develop a Regulatory Framework for the Transition to Competition in the Local Exchange Market.

ORDER INSTITUTING FRAMEWORK FOR DIRECTORY LISTINGS, CARRIER INTERCONNECTION AND INTERCARRIER COMPENSATION

(Issued and Effective September 27, 1995)

BY THE COMMISSION:

INTRODUCTION

This proceeding addresses the transition to competition in the local exchange market. A critical aspect of this transition is the establishment of a level playing field for local competition.1/ Staff made certain recommendations, embodied in its report issued February 15, 1995, for the establishment of terms by which to connect and compensate local

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1/ Pursuant to the Order Instituting Proceeding (issued February 10, 1994) in this case, issues were under consideration in four issue areas, or modules. The issues addressed in this order were pursued in Module 2, the Level Playing Field module. The Commission's March 8, 1995 order identified them as integrally related to the Commission's consideration of Track II of the New York Telephone Incentive Proceeding (Case 92-C-0665).

point out, as well, that defining eligibility for the lower access charge is not administratively simple, and they warn of a potential for dislocations from year to year. Indeed, NYSTA proposed some specific guidelines (e.g., percentage of residential and Lifeline customers served) for eligibility that were problematic for many of the parties.

2. AT&T Alternative

At the conclusion of the discussions and later by written correspondence with the parties, AT&T proposed another alternative. Under AT&T's proposal, a lower priced access charge would be implemented in the home region for all carriers, while full service, facilities-based carriers only would be charged the lower access charge in the entire LATA. An important part of this plan, however, was the availability of links for resale at incremental cost.[1/]

3. Discussion

Meaningful competition requires that there be alternative sources from which customers may purchase dial tone. A framework that provides lower access charges to full service facilities-based local service providers would be likely to stimulate the development of alternative networks, and would properly reflect the risks assumed by carriers that offer the full range of telephone services through their own facilities. Where no such recognition is provided, it is not likely that carriers will have the same incentive to develop alternative sources of dial tone, or to provide a full range of services consistent with the public interest. Thus, after consideration of all the discussion, staff recommends the Commission adopt the joint proposal as a general framework for local intercarrier compensation.

1/ The wholesale price of links is the subject of petitions for reconsideration in Case 92-C-1174, and will be examined in another phase of this proceeding.

Current carrier access charges include a contribution to the costs of universal service. Like toll rates, carrier access charges have traditionally recovered a portion of local loop costs, a logical result of the necessity of the local network to the provision of both local and longer-haul service. From the perspective of competitive equity and economic efficiency, it would be desirable to have access charges, both toll and local, priced at incremental cost. However, it is clear that incremental cost based access charges do not provide for any contribution flows among the carriers, including local service providers, that might be found necessary to promote and protect universal service.1/

All of the parties involved in this collaborative process agree that if all access were priced optimally--that is, at incremental cost--intercarrier compensation would not be an issue. But, since it cannot now be so priced, the local intercarrier compensation framework should be designed to encourage the development of meaningful local competition while continuing to support universal service.

The compensation framework proposed by the parties who will engage in that competition appears most likely to meet these dual goals for now. The Joint Proposal, as modified by the other findings here, will be approved as the compensation framework for the exchange of local traffic. While the rates themselves may require modification upon consideration of the options to be presented for universal service funding in Module 1 of this proceeding, the basic framework is adopted.

1/ Potential competitors have argued that, for economic efficiency, the costs of access and costs of network contribution should be separately identified and paid. This and other universal service concerns are currently under consideration in forthcoming portions of this proceeding. Until other methods of funding the continued provision of universal telephone service are decided, it is apparent that all such contribution cannot abruptly be removed from carrier access charges.

<u>CERTIFICATE OF SERVICE</u>

I hereby certify that on this 11th day of December, 1995, I caused copies of the foregoing "Comments of Competitive Telecommunications Association" to be hand-delivered to the following:

Tariff Division (2 copies)
Federal Communications Commission
1919 M Street, N.W.
Room 518
Washington, D.C. 20554

Industry Analysis Division (on disk)
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 534
Washington, DC 20554

Robin B Walker

Robin B. Walker